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SUBJECT: FOREIGN COMPANIES PLAY A SIGNIFICANT ROLE IN THE FRENCH ECONOMY

Ref: PARIS 1129

1. SUMMARY. The paradox behind the rise of "economic patriotism" in France is the significant role of foreign companies in the French economy. The National Statistical Agency released a report documenting that foreign companies were responsible for 17% of value added, 30% of exports, and one employee out of seven in the economy excluding the financial and the government sectors in 2003. The presence of foreign investors is well anchored in the industry and banking sectors, and has been developing in the services sector. END SUMMARY

#### Foreign Companies Employ One Employee Out of Seven

2. The National Statistical Agency, INSEE, released a report in March on the presence of foreign companies in France, asserting "the French economy is more open to foreign investment than that of its neighbors." French affiliates of foreign companies employ one out of seven employees in the French economy excluding the financial and the government sectors. "This is more than in Germany, the U.K., the Netherlands (one employee out of ten), and the U.S. (one employee out of twenty).

3. Employment in foreign companies established in France almost doubled to 1.9 million in 2003 from 1.1 million in 1994 due to acquisitions (versus green-field investment), which tripled to 18,700 from 5,800 in 1994. French companies acquired since 1994 employ 900,000 workers. Employment in the 2,500 companies acquired before 1994 and still under foreign control remains unchanged at 650,000. Employment is related to the changing demography of companies. Some affiliates of foreign groups existing in 1994 disappeared or became subsidiaries of French groups, and some were created. Overall, an additional 4,800 affiliates were created, corresponding to 100,000 employees. Foreign companies in France are much larger than the national average. Typically, the French affiliate of a foreign company employed an average of 105 employees compared with an average of 5 people employed by French companies.

4. In 2003, U.S., EU and Japanese companies employed 750,000 people in France. The U.S., the first foreign investor in France, employed 430,000 people. Germany, the number one EU investor, employed 280,000 people. Japanese companies employed 49,000 people. This is much more than that reported in 2003 for Chinese companies (1,100 people), although their presence today is certainly more important due to new Chinese businesses and acquisitions (for example, the 2005 acquisition of Marionnaud, a perfume and beauty shop that employs 9,000 people, by the Hong Kong-based AS Watson).

5. Based on INSEE's study, the weight of foreign companies in value added to the economy increased to 17% from 10% in 1994. In the industry sector, including energy, foreign companies accounted for 28% of the value added. They accounted for 34% in the semi-finished goods sector, and 12% in the construction sector.

#### Heavily Involved in Foreign Trade

6. According to Foreign Trade Minister-Delegate Christine Lagarde, foreign companies in France also accounted for 30% of total French exports of goods and services in 2005. She stressed that it was possible to attract more foreign investment "which substantially contributes to the French economy."

#### Foreign Investors have a Strong Presence in Industry

7. Based on employment data, foreign companies have

increased their penetration of the industrial sector since 1994. While total industrial employment in France stagnated over the 1994-2003, employment in foreign companies in the industry sector has increased 33% since 1994. Most industrial groups in France have survived; only 2 of the 20 largest industrial groups that existed in France in 1985 (excluding groups in the energy sector) have disappeared. Foreign groups had a particularly strong presence in pharmaceutical-perfumes, mechanical equipment, wood-paper, chemicals, and electrical and electronic components sectors.

#### And Increase Investment in Services

18. Since 1994, the presence of foreign investors has significantly increased in the services sector (notably, in interim-work, cleaning, and collective catering) and in the retail trade sector (notably, supermarket chains and furniture stores). Overall employment in the services sector more than tripled, and nearly tripled in the retail sector. In 2003, foreign companies were not present in the transportation sector, as was the case in other industrialized countries.

#### Foreign Presence in the Banking Sector

19. Based on Banking Commission data, France had 186 foreign banks with total assets accounting for 10% of total bank assets at the end of 2004, some with sizable branch networks. The largest acquisition in recent years was that of CCF by HSBC in 2000.

#### Comment

10. INSEE's study provides a snapshot of employment in foreign companies in France, although it offers no information about turnover or labor productivity. That said, the study and other official sources provide evidence that foreign investors play a significant role in the French economy. Their role in terms of value added and employment is probably more significant today since foreign investment flows doubled in 2005 (reftel). The timing of the report's release coincides with GOF efforts to defend its "economic patriotism" policy against claims that France is becoming protectionist. Using this data to prove that point, however, runs afoul of the maxim that historical results are no guarantee of future performance.

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